

A REPORT  
TO THE  
**ARIZONA LEGISLATURE**

Accounting Services Division

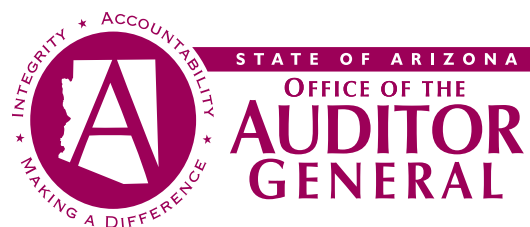
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Compliance Review

# **Oracle Elementary School District No. 2**

Year Ended June 30, 2006

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**Debra K. Davenport**  
Auditor General

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**DEBRA K. DAVENPORT, CPA**  
AUDITOR GENERAL

**STATE OF ARIZONA**  
**OFFICE OF THE**  
**AUDITOR GENERAL**

**WILLIAM THOMSON**  
DEPUTY AUDITOR GENERAL

October 9, 2007

Governing Board  
Oracle Elementary School District No. 2  
HCR Box 2743  
Oracle, AZ 85623

Members of the Board:

We have reviewed the District's audit reports and Uniform System of Financial Records (USFR) Compliance Questionnaire for the year ended June 30, 2006, prepared by Cronstrom, Osuch & Company, P.C. to determine whether the District substantially complied with the USFR.

As a result of our review, we noted significant deficiencies in internal controls that indicate the District had not complied with the USFR. District management should implement the recommendations we have described in this report within 90 days after the date of this letter. We have communicated specific details for all deficiencies to management for correction.

During the 90-day period, the District may request a meeting to discuss these recommendations with my Office and the Arizona Department of Education by calling Magdalene Haggerty, Accounting Services Director, or Gregory Rickert, Accounting Services Manager.

A member of my staff will call the Business Manager in several weeks to discuss the District's action to implement these recommendations. After the 90-day period, my staff will schedule an on-site review of the District's internal controls to determine whether the District is in substantial compliance with the USFR. Our review will cover the deficiencies we have communicated to management as well as any other internal control deficiencies we are aware of at the time of our review.

Sincerely,

Debra K. Davenport  
Auditor General

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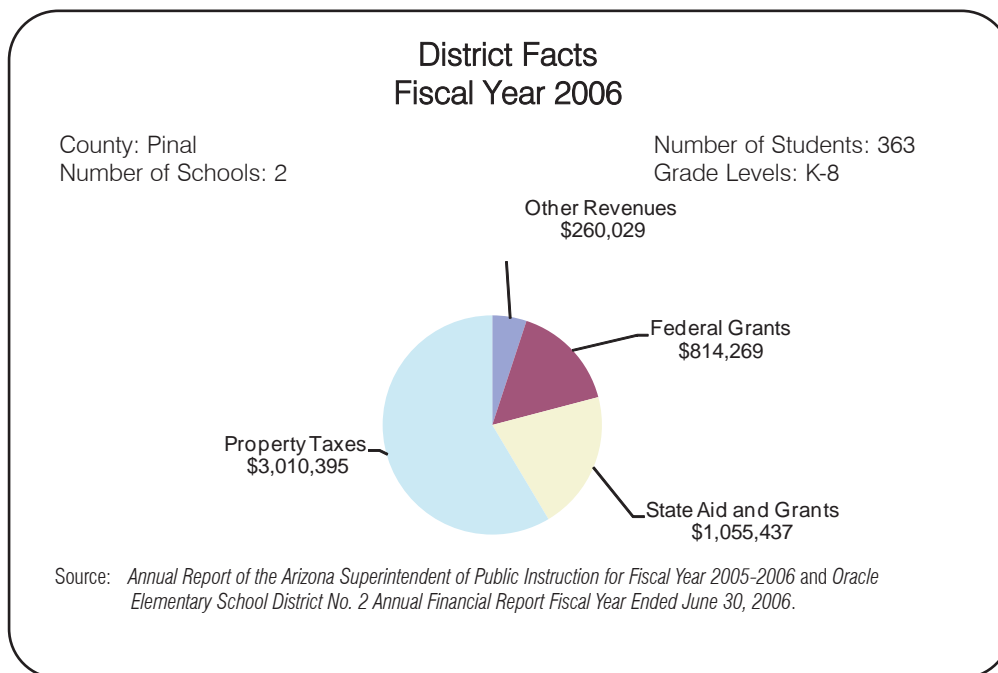


# INTRODUCTION

Oracle Elementary School District No. 2 is accountable to its students, their parents, and the local community for the quality of education provided. The District is also financially accountable to taxpayers for over \$5.1 million it received in fiscal year (FY) 2006 to provide this education.

The District should use effective internal controls to demonstrate responsible stewardship for the tax dollars it receives. These controls are set forth in the *Uniform System of Financial Records* (USFR), a joint publication of the Office of the Auditor General and the Arizona Department of Education (ADE). The policies and procedures in the USFR incorporate finance-related state and federal laws and regulations and generally accepted accounting principles applicable to school districts. Districts are legally obligated to comply with USFR requirements, and doing so is good business practice.

As a result of our review of the District's audit reports and USFR Compliance Questionnaire for the year ended June 30, 2006, we determined that the District had failed to comply with the USFR. We noted certain deficiencies in controls that the District's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate financial stewardship and to comply with the USFR. Our recommendations are described on the following pages.



# The District should ensure the accuracy of its student attendance records

The District may not have received the appropriate amount of funding since the District did not report membership and absences correctly.

The State of Arizona provides funding to school districts based on membership and absences. In turn, the State requires school districts to maintain accurate attendance records to ensure that the districts receive the appropriate amount of state aid and local property taxes. However, the District did not accomplish this objective. Specifically, membership and absences reported to ADE for the 40th- and 100th-day reporting periods did not agree to the District's computerized attendance system. Also, attendance was not always properly recorded in the teachers' attendance registers and the District did not always properly calculate partial-day attendance. Additionally, for several student entries and withdrawals, the date in the District's computerized system did not agree to the entry or withdrawal form. As a result, the District's auditors could not determine the actual date of entry or withdrawal for several students. Further, students with ten consecutive unexcused absences were not always withdrawn correctly. Finally, the District did not maintain documentation to support that entries and withdrawals were entered into the computerized attendance system within 5 working days.

## Recommendations

To help ensure that the District receives the correct amount of state and local funding, the District should:

- Ensure that membership and absences reported to ADE agree with the District's computerized attendance records.
- Retain documentation, including attendance records, membership and absence reports, entry forms, and Official Notice of Pupil Withdrawal forms, to support membership and absences reported to ADE.
- Require all entry and withdrawal forms to be dated and have a second employee verify that the entry and withdrawal dates recorded on the forms agree with the dates in the District's computerized attendance system and teachers' attendance records.
- Withdraw students with ten consecutive unexcused absences as of the last day of attendance and maintain documentation to support the withdrawal.
- Record entries and withdrawals in the District's computerized attendance system within 5 working days of the date of entry or withdrawal and indicate the date entered into the system on the entry and withdrawals forms.

ADE provides guidance for attendance reporting requirements in its *Instructions for Required Reports*.

- Record kindergarten students, with total instruction time between 346 and 692 hours per year, as absent if in attendance for less than 3/4 of the day.
- Record attendance for students enrolled in first through eighth grades, if attendance is based on half days, as follows:
  - Attendance of at least 3/4 of the instructional time scheduled for the day should be counted as a full day of attendance.
  - Attendance for at least 1/2, but less than 3/4, of the instructional time scheduled for the day should be counted as a half-day of attendance.

## The District should strengthen controls over competitive purchasing and expenditures

School District Procurement Rules for competitive sealed bidding and USFR guidelines for purchases below the competitive sealed bid threshold promote open and fair competition among vendors. This helps ensure that districts receive the best possible value for the public monies they spend. However, the District did not always follow the procurement rules and the USFR guidelines. Specifically, the District did not always obtain oral price quotations for purchases requiring them. Also, the District did not always issue adequate notice of invitations for bids (IFBs) and did not time- and date-stamp bid envelopes upon receipt. In addition, documentation for one IFB was not maintained to support that the lowest bidder was selected. Finally, the District did not maintain credit card receipts to support credit card purchases.

The District did not always follow competitive purchasing requirements, and therefore, could not ensure it received the best value for the public monies it spent.

## Recommendations

To strengthen controls over competitive purchasing and expenditures, the District should:

- Analyze the known requirements for an item or a collection of items that, in the aggregate, may result in purchases above the applicable thresholds for oral or written price quotations and formal competitive bids or proposals from one or more vendors.
- Obtain oral price quotations from three or more vendors for purchases costing between \$5,000 and \$15,000.

USFR guidelines require oral price quotations for purchases between \$5,000 and \$15,000.



USFR pages VI-G-7 and 8 provide guidance on the proper use of district credit cards.

- In the event that there are four or fewer prospective bidders on the bidder's list, publish a notice of invitation for bids in the county's official newspaper for two publications that are not less than 6 nor more than 10 days apart, with the second publication not less than 14 days before bid opening.
- Retain documentation to support that all bids were time- and date-stamped upon receipt and held unopened until the date and time set for bid opening.
- When IFBs are used, retain documentation to support that the contract was awarded to the lowest responsive and responsible bidder.
- Retain documentation to support all credit card transactions, including a clear indication of the employee making the purchase and the specific school purpose served. Credit card receipts and other supporting documentation should be agreed to the applicable billing statement for propriety before payment is made to the credit card company.

## The District's controls over cash should be improved

Poor cash controls left district and student monies susceptible to loss, theft, or misuse.

The District receives cash from various sources and maintains bank accounts. Because of the relatively high risk associated with cash transactions, the District should maintain effective internal controls to safeguard cash, ensure that it is promptly and accurately recorded and deposited, and ensure that bank accounts are used as authorized by statute. However, the District failed to deposit cash in a timely manner for numerous extracurricular activities fees tax credits, daycare, student activities, food service, and auxiliary operations receipts. Also, the District frequently did not reconcile sales to cash collected for food service operations. Finally, the District did not establish a separate bank account for auxiliary operations, but rather, deposited auxiliary operations receipts into the Student Activities Fund bank account.

## Recommendations

To properly control and safeguard cash, the District should:

- Deposit all cash receipts daily, if significant, or at least weekly, in the appropriate bank account or directly with the county treasurer.
- Remit monies deposited in the Food Service Fund clearing account to the county treasurer weekly, or at least monthly.

- Prepare daily cash collection reports for food service operations that document a reconciliation of sales to cash collected. The District should resolve all differences noted and make appropriate corrections.
- Establish and use bank accounts only for their intended purpose. The District should establish separate bank accounts for student activities and auxiliary operations. The District may also deposit auxiliary operations receipts directly into the Auxiliary Operations Fund account maintained with the county treasurer.

The forms on USFR pages X-F-17 and 19 may be used to record daily cash collections and reconcile sales to cash collected.

USFR §X-G provides general policies and procedures for auxiliary operations.

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